

SEC ISSUES MORE COVID-19 DISCLOSURE GUIDANCE AS QUARTER END APPROACHES

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On June 23, 2019, both the Division of Corporation Finance and the Office of the Chief Accountant issued additional statements to public companies and their stakeholders about the importance of “high-quality” financial reporting and the need for focused analysis and disclosures in the context of the principles-based disclosure system.

The Division of Corporation Finance issued [CF Disclosure Guidance Topic No. 9A](#), a supplement to [Topic No. 9](#) issued near the close of the first quarter of this year (see our [prior blog post on Topic No. 9](#)). The new guidance states that the Division is monitoring how companies are addressing COVID-19 related disclosures and encourages public companies to provide meaningful disclosures of the current and expected impact of COVID-19 through the eyes of management. The key topics covered by the guidance are the effects of the pandemic on a company’s operations, liquidity and capital resources; the short and long-term impact of any federal relief received under the CARES Act; and the company’s ability to continue as a going concern.

The staff acknowledges that companies are making many operational changes as a result of the pandemic – from converting to telework to modifying supply chain and customer contracts, and now converting to the return to the workplace and business reopenings. The guidance says that companies need to consider whether any or all of those changes “would be material to an investment or voting decision” and disclose accordingly. The staff takes a similar tack with respect to the myriad financing activities that many companies are taking on. The staff says it has noted that companies are putting disclosures around these activities in press releases, and encourages all companies “to evaluate whether any of the information, in light of its potential materiality, should also be included in MD&A.”

Similar to the format of Topic No. 9, the guidance sets forth dozens of questions for companies to consider as they assess and disclose the evolving impact of COVID-19 on their operations, liquidity and capital resources. These include:

- “What are the material operational challenges that management and the Board of Directors are monitoring and evaluating?”

- “Are your disclosures regarding actions [to access revolving lines of credit or raising capital] and any unused liquidity sources providing investors with a complete discussion of your financial condition and liquidity?”
- “Are you at material risk of not meeting covenants in your credit and other agreements?”

There is also a reminder to assess whether there have been any events since the end of the reporting period that have had or are reasonably likely to have a material impact on liquidity and capital resources and, if so, to address such subsequent events in the financial statements and MD&A.

In a separate section, the staff takes on the issues around disclosure of federal assistance received under the CARES Act. The staff says companies should consider the short-and long-term impact of any such assistance on their financial condition, results of operations, liquidity and capital resources. Questions posed in this section include whether the federal assistance gave rise to new material accounting estimates or judgments – including, for example, the probability that a loan will be forgiven – and whether there were any uncertainties involved which should be disclosed.

Finally, the staff sets aside a segment devoted entirely to considerations and disclosures related to a company’s ability to continue as a going concern. The guidance states that management “should consider whether conditions and events, taken as a whole, raise substantial doubt about the company’s ability to meet its obligations as they become due within one year after the issuance of the financial statements.” Where there is such doubt, management should provide the appropriate disclosures in the financial statements and MD&A.

In his [public statement](#), also on June 23, 2020, Sagar Teotia, Chief Accountant, underscored prior messaging of the Office of the Chief Accountant (OCA) regarding “the importance of high-quality financial reporting in light of the significant impacts of COVID-19.” The statement of the OCA is more of a summary of its recent engagement with financial reporting system stakeholders – public companies and their audit committees, auditors, the FASB and the PCAOB, international standard setters and other regulators – and provides little in the way of new guidance.

The statement covers issues such as significant judgments and estimates; the importance of disclosure controls and procedures and internal control over financial reporting in the face of so much uncertainty and possible changes in risk profiles; reminders about the need to assess an entity’s ability to continue as a going concern and to provide related required disclosures; and the availability of consultation with the OCA in connection with addressing complex or emerging issues in financial reporting, including the matter of auditor independence.

Overall, these tandem releases send a clear signal that, at least for now, no new reporting requirements, metrics or line item disclosures are coming from the SEC. The focus will be on making the existing principles-based disclosure system work in the face of unprecedented market

disruptions and economic turmoil affecting a wide swath of U.S. public companies and their stakeholders.

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